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NEW MEXICO BUSINESS

CURRENT ECONOMIC REPORT

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The New Mexico Economy: 1989 Review and 1990 Outlook

In 1989 the New Mexico economy continued to expand at a reasonable clip, led by strong growth in manufacturing, welcome improvement in the state's mining sector and the bottoming out of the three year long construction industry decline. New Mexico's economic performance this year matched the national average for the first time since 1985, and the state's growth is now one of the strongest among Southwestern states.

New Mexico nonagricultural employment grew 2.4 percent in 1989, after having increased 2.1 percent in 1988. State personal income expanded a healthy 7.4 percent this year, fueled by one-time sharp advances in interest and farm income. Real disposable income increased a strong 3.0 percent, which should have been good news for retailers during the holiday shopping season. The New Mexico unemployment rate fell from 7.8 percent in 1988 to 6.6 percent in 1989. Much of this improvement in the state's labor market, however, can be traced to a significant slowing in the state's labor force. In 1988 New Mexico experienced a slight net out-migration of persons for the first time since the 1960s, as unemployed construction and oil and gas workers left the state in search of job opportunities elsewhere. However, because of our high birth rates, overall state population continues to grow, and with the recent stabilization in the oil and gas and construction sectors, this net out-migration should cease in the future.

Small improvement in the state's mining sector can be seen in the re-opening of the molybdenum mine in Taos County and the potash mines near Carlsbad. Federal tax incentives have led to a burst of new exploration for coal seam gas in the Farmington area, while copper production continues to expand in Grant County. This has been welcome news to the economies of rural New Mexico.

Rural New Mexico is also experiencing strong growth in manufacturing. Manufacturing employment increased 7.4 percent in 1988 and an additional 6.0 percent in 1989 in the areas of the state outside the Albuquerque MSA. The TMC plant expansion in Roswell and new hiring at Intel in Rio Rancho have led this growth, but there has been significant manufacturing growth in Luna, McKinley, Otero and San Juan counties, as well.

Construction remains a weak area in the state's economy, although this industry appears to have bottomed out in 1989 after a long and steep contraction. Since 1985, New Mexico has lost 7,800 construction jobs, representing a 21.0 percent decline over this period. On a brighter note, tourism and strong personal income gains have greatly benefited the state's retail trade and services sectors where employment growth averaged 3.0 to 4.0 percent in 1989.

Albuquerque's economy remains mired in a rut of slow, but steady growth. In 1989 Albuquerque nonagricultural employment increased about 2.0 percent, matching its weak performance in 1987 and 1988. Albuquerque's current economic growth is a far cry from the 6.0 to 7.0 percent pace experienced in the mid-1980s. Albuquerque's economy is now expanding less than both the U.S. economy and the state's economy as a whole—an unusual development for New Mexico's largest city.

There are three major factors which explain the current slowdown in the Albuquerque economy. First of all, like New Mexico Albuquerque has experienced a severe recession in the construction sector. Albuquerque construction employment has fallen 18 percent since 1985—somewhat less than for the state as a whole, but construction is a more important sector to the city's economy. Secondly, Albuquerque's largest sector—services—is very sluggish with employment growth in the 2.0 to 2.5 percent range compared to 4.0 percent for New Mexico and 5.0 percent for the U.S. Within the services sector in Albuquerque you will find many high tech R&D firms including Sandia Labs and BDM Corporation, which do business with the federal government. The impact of defense spending cutbacks are appearing within the city's services sector. Finally, manufacturing employment growth within the Albuquerque MSA (Bernalillo County) has been very modest (1.5 percent) for the last two years in comparison with the manufacturing expansions in the rest of the state and the U.S.

In 1990 the New Mexico and Albuquerque economies will slow as the year progresses. An expected slowdown in the national economy (no recession, though) will be concentrated within the manufacturing sector. Thus, in New Mexico where manufacturing has been leading the state's economic expansion, we should also expect slower growth. Personal income gains in 1990 will be more modest as interest rates fall and farm income drops slightly from drought-induced highs in 1989. With still high inflation rates, real income growth will moderate, impacting the state's retail trade and consumer-oriented service businesses. Lower interest rates in 1990 will bring some good news to the state's construction industry. Single family housing permits are expected to increase 20 percent in 1990; however, the level of housing permits in 1990 will still be far below the peak levels of the 1983–87 time period. Other favorable developments in 1990 will include 1,300 new military jobs at Cannon Air Force Base in Clovis.

Assuming no major cuts in federal spending, 1990 will be a

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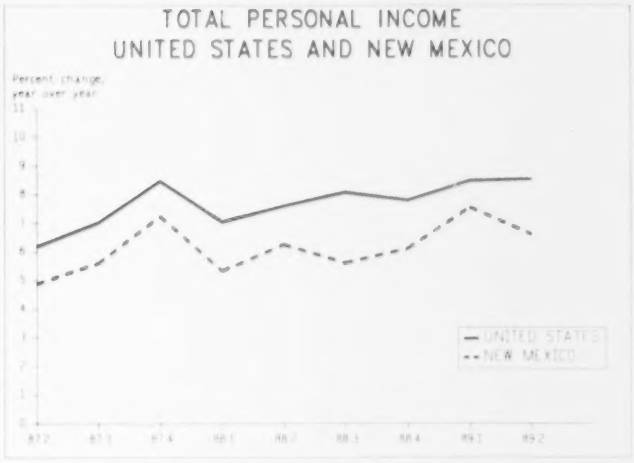
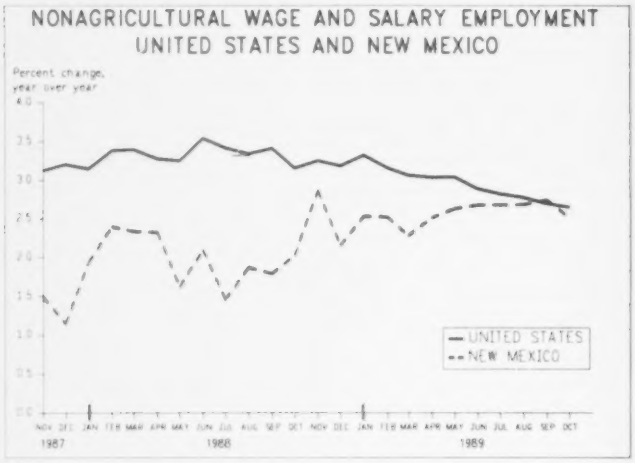
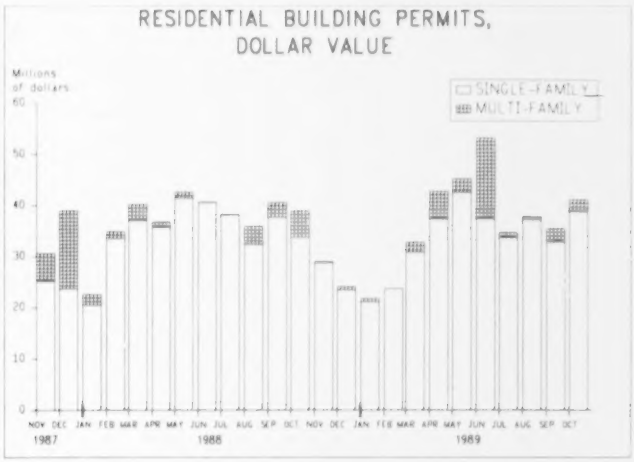
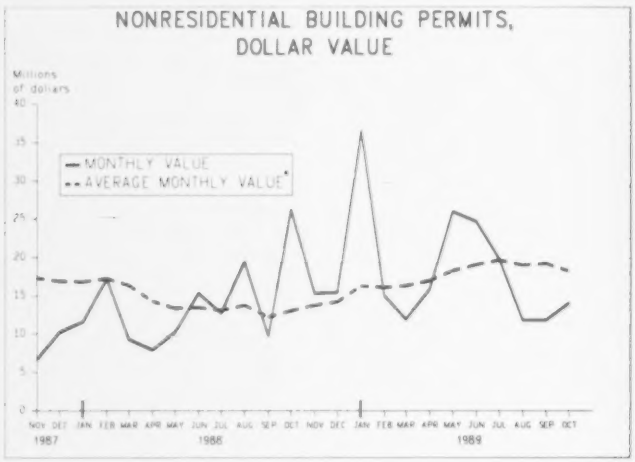
Bureau of Business and Economic Research, The University of New Mexico
1920 Lomas NE, Albuquerque, NM 87131
Main Office: (505) 277-2216 Data Bank: (505) 277-6626

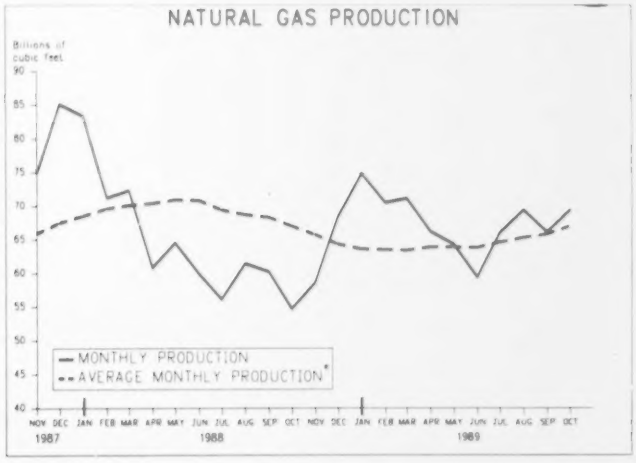
ECONOMIC TRENDS IN NEW MEXICO

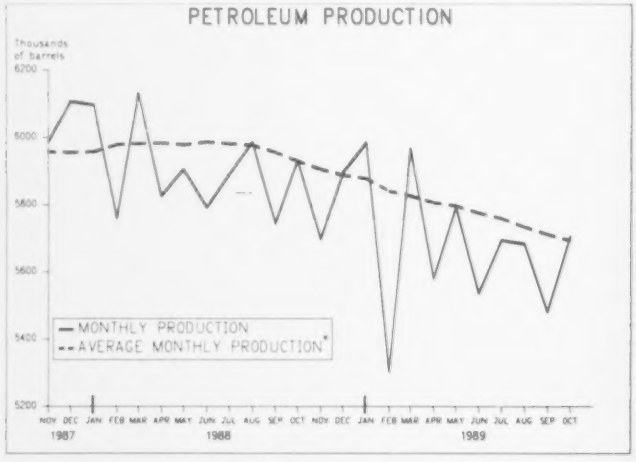












* 12 month moving average. For example, the point for August, 1988 represents an average of data from September, 1987 through August, 1988.

U.S. ECONOMIC INDICATORS

	CURRENT MO/QTR	CURRENT DATA	% CHANGE YEAR AGO	PREVIOUS MO/ QTR DATA
Consumer price index				
All urban consumers (1982-84=100)				
All items	Oct 89	125.6	4.5	125.0
Food and beverages	Oct 89	126.3	5.0	125.9
Housing	Oct 89	124.4	3.8	124.3
Apparel and upkeep	Oct 89	122.7	1.7	120.0
Transportation	Oct 89	114.5	4.1	113.7
Medical care	Oct 89	152.7	8.1	151.7
Entertainment	Oct 89	128.4	5.4	127.8
Other goods and services	Oct 89	151.8	8.0	151.2
Revised series, wage earners and clerical workers (1982-84=100)				
All items	Oct 89	124.2	4.5	123.6
Gross national product* ($Bil. constant)	Q3 89	4160.2	2.9	4132.5
Prime interest rate** (% per annum)	Oct 89	10.5	5.0	10.5
Mortgage interest rate*** (% per annum)	Oct 89	10.1	11.1	10.2
3 month treasury bill# (% per annum)	Oct 89	7.6	3.4	7.7
Industrial production## (1977=100)	Oct 89	141.4	1.4	142.4
Manufacturers new orders## ($Bil.)	Sep 89	234.8	5.4	236.8

NEW MEXICO AND U.S. COMPARISONS

		NEW MEXICO			UNITED STATES		
	CURRENT MO/QTR	CURRENT MO/QTR DATA	% CHANGE YEAR AGO	PREVIOUS MO/QTR DATA	CURRENT MO/QTR DATA	% CHANGE YEAR AGO	PREVIOUS MO/QTR DATA
Employment (000)	Oct 89	659.5	2.0	650.9	118,194	1.7	117,498
Unemployment rate (%)	Oct 89	5.9	-	6.1	5.0	-	5.1
Nonagricultural employment (000)	Oct 89	562.2	2.5	561.5	110,124	2.7	109,477
Personal income### ($Mil.)	Q2 89	20,000	6.6	19,604	4,347,416	8.5	4,259,170
Housing units permitted							
Single	Oct 89	470	2.2	440	81,465	-1.6	78,725
Multi	Oct 89	53	-82.6	46	34,898	-14.9	33,407

Note: Selected data items subject to revision.
N Not available.
* 1982 dollars at seasonally adjusted annual rates.
** Closing rate for month.
*** Effective rate (in the primary market) on conventional mortgages, reflecting fees and charges as well as contract rate and assumed, on the average, repayment at end of 10 years.
# Rate on new issues within period; bank discount basis.
Monthly data seasonally adjusted.
Quarterly data seasonally adjusted at annual rates.
Sources: U. S. Department of Labor, News: CPI data;
New Mexico Department of Labor and U. S. Bureau of Labor Statistics: employment and unemployment data.
U. S. Department of Commerce, Bureau of Economic Analysis: income data;
U. S. Department of Commerce, Bureau of the Census: construction data.
U. S. Council of Economic Advisors, Economic Indicators: all other data.

NEW MEXICO ECONOMIC INDICATORS

	CURRENT MO/QTR	CURRENT DATA	% CHANGE YEAR AGO	PREVIOUS MO/QTR DATA	% CHANGE# 12 MONTH AVERAGES
1. GENERAL					
Civilian labor force* (000)	Oct 89	701.0	1.0	693.2	0.0
Total employment* (000)	Oct 89	659.5	2.0	650.9	1.5
Unemployment* (000)	Oct 89	41.6	-12.4	42.3	-16.8
Unemployment rate (%)	Oct 89	5.9	-	6.1	-
Weekly new unemployment insurance claims	Oct 89	1184.0	-7.6	841.0	-10.1
Nonagricultural wage/salary employment**(000)	Oct 89	562.2	2.5	561.5	2.6
Personal income*** ($ mil.)	Q2 89	20000.0	6.6	19604.0	6.5
New business incorporations	Sep 89	221.0	3.8	245.0	-0.1
Business failure liabilities ($ 000)	Sep 89	4047.0	-50.8	3429.0	516.2
2. AGRICULTURAL RECEIPTS					
Livestock and products ($ mil.)	Aug 89	54.4	-0.9	46.1	5.8
Crops ($ mil.)	Aug 89	43.5	3.8	48.7	10.6
Total ($ mil.)	Aug 89	97.9	1.1	94.8	7.2
3. MINING					
Employment** (000)	Oct 89	16.1	4.5	15.9	0.6
Average hourly earnings ($)	Oct 89	12.12	-1.3	12.63	3.3
Petroleum production (000 bbls.)	Oct 89	5705.9	-3.8	5480.9	-4.0
Natural gas production (bil. cu. ft.)	Oct 89	69.4	26.9	66.1	-0.0
Coal production (000 short tons)	Oct 89	2063.0	5.6	2123.0	10.0
Oil well completions&	Oct 89	32.0	-5.9	46.0	-23.6
Gas well completions&	Oct 89	37.0	-5.1	43.0	46.7
Total footage drilled&& (000)	Oct 89	298.8	-40.0	439.1	-13.5
Oil sales ($ mil.)	Aug 89	92.9	12.5	101.5	-4.4
Gas sales ($ mil.)	Aug 89	90.2	10.7	99.5	-13.8
4. CONSTRUCTION					
Employment** (000)	Oct 89	30.5	-1.0	30.4	-2.3
Average hourly earnings ($)	Oct 89	11.92	3.3	12.12	3.2
Residential units permitted	Oct 89	523.0	-31.6	486.0	-12.6
Residential building permits ($ mil.)	Oct 89	41.2	5.9	35.5	-4.4
Nonresidential building permits ($ mil.)	Oct 89	14.0	-46.6	11.8	39.5
Residential construction contracts ($ mil.)	Oct 89	48.1	-3.4	44.3	-10.3
Nonresidential construction contracts ($mil.)	Oct 89	43.8	-3.9	32.7	-19.9
Nonbuilding construction contracts ($ mil.)	Oct 89	28.9	-51.2	38.1	-12.4
5. TRANSPORTATION/COMMUNICATION/UTILITIES					
Employment** (000)	Oct 89	28.9	-1.0	28.8	-1.7
Average hourly earnings## ($)	Oct 89	14.17	3.2	13.86	0.8
6. MANUFACTURING					
Employment** (000)	Oct 89	42.3	2.7	42.3	3.5
Average hourly earnings ($)	Oct 89	8.46	-3.5	8.56	-0.9
Electric & electronic equipment employment** (000)	Oct 89	5.6	1.8	5.7	7.5
Transportation equipment employment** (000)	Oct 89	5.3	-3.6	5.3	5.9
Food & kindred products employment** (000)	Oct 89	4.7	4.4	4.8	2.6
Textile & apparel employment** (000)	Oct 89	2.7	0.0	2.7	0.0
Lumber & wood products employment** (000)	Oct 89	2.6	4.0	2.6	0.0

NEW MEXICO ECONOMIC INDICATORS (continued)

	CURRENT MO/QTR	DATA	% CHANGE YEAR AGO	PREVIOUS MO/QTR DATA	% CHANGE# 12 MONTH AVERAGES
7. TRADE					
Wholesale employment** (000)	Oct 89	23.6	1.3	23.5	1.3
Retail employment** (000)	Oct 89	111.7	2.2	113.2	3.8
Average hourly earnings ($)	Oct 89	6.92	3.7	6.99	0.6
8. FINANCE/INSURANCE/REAL ESTATE					
Employment** (000)	Oct 89	27.7	2.2	27.6	2.2
Bank average hourly earnings ($)	Oct 89	6.90	7.8	6.70	9.6
Bank total assets ($ mil.)	Q2 89	10248.0	4.4	10248.0	4.8
Bank total deposits ($ mil.)	Q2 89	8598.0	2.3	8617.0	3.4
Bank net loans ($ mil.)	Q2 89	5719.0	2.6	5638.0	N
S & L total assets ($ mil.)	Jul 89	5261.0	-11.0	5322.0	-9.5
S & L total deposits ($ mil.)	Jul 89	4626.0	-4.3	4598.0	-2.0
S & L new mortgage loans closed&&& ($ mil.)	Jul 89	46.0	-59.6	75.0	-11.2
9. SERVICES AND TOURISM					
Total service employment** (000)	Oct 89	133.4	3.7	134.2	3.9
Lodging employment** (000)	Oct 89	11.8	1.7	12.4	2.6
Eating & drinking places employment** (000)	Oct 89	42.5	2.7	44.5	6.5
Visits to state parks (000)	Oct 89	262.9	-19.9	399.4	N
Visits to national parks/monuments (000)	Oct 89	160.8	-1.3	182.4	8.1
Passenger traffic at Albuquerque airport@ (000)	Oct 89	437.7	13.3	377.9	10.3
Lodgers tax receipts### ($ 000)	Q2 89	2756.8	20.6	2063.8	15.2
Lodging occupancy rates (%)	Oct 89	77.2	6.9	73.8	5.5
10. GOVERNMENT					
Total government employment** (000)	Oct 89	148.0	3.1	145.6	2.7
Federal employment** (000)	Oct 89	30.3	2.0	30.8	2.0
State employment** @@ (000)	Oct 89	53.1	4.7	52.2	2.3
Local employment** (000)	Oct 89	64.6	2.4	62.6	3.3

Note: selected data items subject to revision.
N Not available.
* Number of persons by place of residence.
** Number of jobs by place of work.
*** Quarterly data seasonally adjusted at annual rates.
& These include wells that are in the following categories: new drillings, deepened, plugged back, reentry and additional zone.
&& Oil and gas combined.
&&& New mortgage loans closed equals the previously carried item "Total loans closed" plus a relatively insignificant additional loan category.
# For example, in the report that contained June 1985 figures this would be the percent change in the average of July 1983 to June 1984 data versus the average of July 1984 to June 1985 data.
Communications and utilities only.
A portion of the increase in lodgers tax receipts is attributable to an increase in the rate levied by the City of Santa Fe. The rate increased from 3 to 4 percent as of July 1, 1987.
@ Passenger traffic includes enplanements and deplanements.
@@ This figure includes full and part time employment at Los Alamos National Laboratory (LANL). Full time equivalent employment (FTE) at LANL is 7,700 as of April 1989 according to LANL Personnel Dept.
@@@ Includes recurring and non-recurring revenues.

Sources: New Mexico Department of Labor: Sections 1, 3, 4, 5, 6, 7, 8, 9, 10;
Dun and Bradstreet, Inc.: Section 1;
U. S. Dept of Commerce, Bureau of Economic Analysis: Section 1;
USDA Statistical Reporting Service: Section 2;
New Mexico Energy, Minerals and Natural Resources Dept., Oil and Gas Conservation Division: Section 3;
New Mexico Taxation and Revenue Dept., Oil and Gas Accounting Division: Section 3;
U. S. Dept. of Energy, Energy Information Administration: Section 3;
U. S. Dept. of Commerce, Bureau of the Census: Section 4;
F. W. Dodge Company (a division of McGraw Hill, Inc.): Section 4;
U. S. Federal Reserve: Section 8;
Federal Home Loan Bank of Dallas: Section 8;
U. S. Federal Deposit Insurance Corporation: Section 8;
New Mexico Energy, Minerals and Natural Resources Dept., Park and Recreation Division: Section 9;
U. S. National Park Service: Section 9;
City of Albuquerque, Albuquerque International Airport: Section 9;
New Mexico Dept. of Finance and Administration, Local Government Division: Section 9;
Pannell, Kerr and Forster: Section 9;
New Mexico Dept. of Finance and Administration: Section 10.

CITIES, COUNTIES AND FEATURES

GROSS RECEIPTS# FROM RETAIL TRADE
TOP 20 CITIES
($000)

	CURRENT 3 MONTH AVERAGE* AUG-OCT	% CHANGE AVERAGE YEAR AGO	PREVIOUS 3 MONTH AVERAGE* MAY-JUL
Alamogordo	$ 16,558	11.2	$ 15,825
Albuquerque	265,659	9.7	268,261
Artesia	5,102	6.5	5,349
Carlsbad	13,877	13.0	13,784
Clovis	17,619	-0.9	17,845
Deming	6,165	10.0	6,232
Espanola	7,302	-1.3	7,805
Farmington	31,045	9.6	30,755
Gallup	22,997	-4.7	23,419
Hobbs	16,158	-9.3	18,870
Las Cruces	36,645	4.2	38,851
Las Vegas	6,309	0.3	6,217
Los Alamos	7,679	7.3	7,222
Portales	4,998	0.5	5,591
Rio Rancho	5,877	-4.0	6,041
Roswell	20,815	9.0	21,048
Ruidoso	7,475	10.5	5,814
Santa Fe	67,745	13.6	58,083
Silver City	8,501	1.3	8,996
Taos	10,137	6.6	8,909
State total	754,615	6.5	752,632

\# Gross receipts reported are for gross receipts tax purposes, which do not include all the receipts of all firms.
* Averages are used to smooth out fluctuations in the data, which are not caused by changes in economic conditions.

Source: New Mexico Taxation and Revenue Department.

NEW MEXICO CONSTRUCTION@
SELECTED CITIES

	NUMBER OF BUILDING UNITS OR PERMITS *				VALUE OF BUILDING PERMITS ($000)			
	OCT. 1989	OCT. 1988	CUMULATIVE TOTAL THROUGH OCT. 1989	CUMULATIVE TOTAL THROUGH OCT. 1988	OCT. 1989	OCT. 1988	CUMULATIVE TOTAL THROUGH OCT. 1989	CUMULATIVE TOTAL THROUGH OCT. 1988
NEW RESIDENTIAL**								
Alamogordo	8	6	57	85	$ 478	$ 446	$ 3,505	$ 4,882
Albuquerque, Total	140	165	1,620	1,889	11,163	12,530	111,664	130,380
Single Family	128	165	1,177	1,613	10,363	12,530	96,275	123,386
Multi Family	12	0	443	276	800	0	15,389	6,994
Carlsbad	4	0	19	30	418	0	1,635	1,800
Clovis	16	5	91	27	1,269	375	6,030	2,169
Farmington	2	2	34	29	155	126	2,520	1,835
Hobbs	0	0	3	5	0	0	293	787
Las Cruces	32	47	472	481	2,183	1,604	23,873	23,233
Los Alamos	3	0	16	19	578	0	2,527	2,295
Rio Rancho	50	55	630	844	2,709	2,636	30,659	36,821
Roswell	8	5	55	56	592	437	3,871	4,045
Ruidoso	5	6	45	50	359	366	3,544	3,541
Santa Fe	66	314	550	701	5,108	7,544	37,074	31,127
NEW NONRESIDENTIAL								
Alamogordo	7	6	53	52	625	36	1,545	3,172
Albuquerque	2	4	33	46	1,317	17,410	86,155	56,307
Carlsbad	8	11	54	56	599	56	1,290	662
Clovis	0	4	9	18	0	1,200	2,816	3,910
Farmington	1	0	15	14	70	0	2,058	2,172
Hobbs	0	0	6	3	0	0	2,519	372
Las Cruces	12	14	105	149	3,785	1,053	9,782	10,112
Los Alamos	0	4	5	14	0	5	474	219
Rio Rancho	0	1	12	15	0	131	4,672	6,748
Roswell	7	4	70	62	435	413	1,909	1,376
Ruidoso	0	0	4	10	0	0	157	64
Santa Fe	7	3	64	34	649	154	11,172	4,047

Note: Top twelve cities chosen on basis of residential construction activity during the period 1982 through 1984.
@ Data refer only to permits authorized for private construction projects. Public buildings and projects are excluded.
* Residential data shows the number of permitted units, while nonresidential data shows the number of permits.
** Residential data includes both single and multi-family units. In the case of Albuquerque, single and multi-family units are also shown separately.

Sources: U. S. Department of Commerce, Bureau of the Census: all cities, except for Rio Rancho;
City of Rio Rancho: Rio Rancho only.

CITIES, COUNTIES AND FEATURES (continued)

ESTIMATED CIVILIAN LABOR FORCE AND EMPLOYMENT
(000)

	NEW MEXICO			ALBUQUERQUE MSA*			LAS CRUCES MSA**			SANTA FE MSA***		
	OCT. p	% CHANGE YEAR AGO	SEPT.r	OCT. p	% CHANGE YEAR AGO	SEPT.r	OCT. p	% CHANGE YEAR AGO	SEPT.r	OCT. p	% CHANGE YEAR AGO	SEPT.r
TOTAL CIVILIAN LABOR FORCE	701.0	1.0	693.2	267.6	0.7	263.9	59.3	2.8	57.1	67.2	1.2	66.4
Employment@	659.5	2.0	650.9	254.9	1.4	251.1	55.6	3.3	53.5	64.5	1.7	64.0
Unemployment	41.6	-12.4	42.3	12.7	-11.8	12.8	3.6	-7.7	3.6	2.7	-12.9	2.4
Unemployment rate (%)	5.9	-	6.1	4.7	-	4.9	6.1	-	6.3	4.1	-	3.7
NONAGRICULTURAL WAGE & SALARY EMPLOYMENT	562.2	2.5	561.5	242.3	1.6	242.9	43.2	3.8	42.4	56.7	1.8	56.9
Mining	16.1	4.5	15.9	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.1
Contract construction	30.5	-1.0	30.4	15.0	-2.0	15.0	2.3	4.5	2.3	2.7	-3.6	2.6
Manufacturing	42.3	2.7	42.3	20.7	1.0	20.8	3.9	-2.5	3.9	1.7	0.0	1.7
Durable goods	28.2	2.5	28.1	14.7	0.0	14.8	1.6	0.0	1.6	1.1	0.0	1.1
Nondurable goods	14.1	2.9	14.2	6.0	3.4	6.0	2.3	-4.2	2.3	0.6	-14.3	0.6
Transportation & public utilities	28.9	-1.0	28.8	13.1	3.1	13.1	1.3	-7.1	1.3	1.1	-8.3	1.1
Trade	135.3	2.0	136.7	61.7	1.0	62.4	9.4	4.4	9.2	11.0	0.9	11.3
Wholesale	23.6	1.3	23.5	14.5	0.7	14.5	1.0	0.0	1.0	0.9	0.0	0.9
Retail	111.7	2.2	113.2	47.2	1.1	47.9	8.4	3.7	8.2	10.1	1.0	10.4
Finance, insurance, & real estate	27.7	2.2	27.6	15.2	1.3	15.3	1.8	0.0	1.8	2.0	0.0	2.0
Services	133.4	3.7	134.2	67.6	2.1	67.5	6.9	4.5	7.0	15.0	1.4	15.2
Government	148.0	3.1	145.6	48.9	2.5	48.7	17.6	6.0	16.9	23.2	4.0	23.1
Federal	30.3	2.0	30.8	13.2	0.0	13.3	4.3	2.4	4.3	1.5	-6.3	1.7
State	53.1	4.7	52.2	13.8	3.8	14.1	7.4	8.8	7.0	17.1	4.3	17.1
Local	64.6	2.4	62.6	21.9	3.3	21.3	5.9	5.4	5.6	4.6	7.0	4.3

N Not available, less than 50 jobs.
P Preliminary.
R Revised.

* Bernalillo County.
** Dona Ana County.
*** Santa Fe and Los Alamos Counties.
@ Includes labor disputes.

Source: New Mexico Department of Labor.

The New Mexico Economy . . . (*continued from page 1*)

year of moderate growth for New Mexico. State nonagricultural employment is expected to increase 2.0 percent in 1990 with personal income gains of 5.8 percent. However, the annual averages will mask a state economy which is slowing throughout the year. For example, by the end of 1990 state employment growth will be closer to only 1.0 percent.

The decade of the 1980s was a remarkably different period for the New Mexico economy than the 1970s. On average, New Mexico nonagricultural employment grew only 1.95 percent per year during the 1980s compared to 4.8 percent per year in the 1970s. The collapse of the state's extractive industries in the 1980s ushered in a decade of much slower growth. In 1981 mining employment at 31,200 accounted for 6.5 percent of all jobs in the state. By 1989 mining employment had fallen 50 percent to 15,550 and accounted now for only 2.8 percent of state employment. During the 1980s increases in federal spending for SDI and defense manufacturing (Honeywell in Albuquerque) helped to offset the adverse consequences of the mining industry's decline.

As we begin the decade of the 1990s, the New Mexico economy faces the prospect of decline in yet another key industry—federal spending. In FY 1988 the federal government spent $8.685 billion in a New Mexico economy with a gross state product estimated at $26.3 billion. While no one envisions as drastic cuts in federal spending in the 1990s as occurred in the mining sector during the 1980s, the sheer importance of federal spending to the New Mexico economy means that even small real cuts will have significant negative impacts.

As New Mexico enters the 1990s, the state economy faces enormous risks due to its dependence upon federal spending. The exact size and timing of any cuts are unknown at this time. Offsetting potential cuts in SDI spending and a threatened across-the-board Gramm-Rudman cut will be expansion at Cannon Air Force Base in Clovis and at Kirtland Air Force Base in Albuquerque associated with the nationwide base closure activities. However, in the 1990s New Mexico must find other industries such as manufacturing, tourism and business services to diversify the state economy and offset the adverse effects of cuts in federal spending.

Brian McDonald, Director

(This 1989 and 1990 analysis of the New Mexico economy is based on estimates and projections at the Bureau of Business and Economic Research, utilizing an econometric model of the New Mexico economy.)

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